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**NEWS RELEASE**

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**PSC ALLOWS EAST KENTUCKY POWER TO INCREASE ELECTRIC  
GENERATING CAPACITY**

*Most planned plants still needed despite loss of prospective major customer*

FRANKFORT, Ky. (May 11, 2007) – The Kentucky Public Service Commission (PSC) is allowing the East Kentucky Power Cooperative (EKPC) to proceed with construction of most of the electric generating facilities the company says are needed to meet rising demand.

In an order issued today, the PSC said the new power plants will be needed despite the fact that the 30,000-customer Warren Rural Electric Cooperative Corp. (RECC) rescinded its contract to purchase its power from EKPC. The decision by Warren RECC triggered a review by the PSC of seven plants it had earlier authorized EKPC to construct.

EKPC will be allowed to complete construction of a coal-burning 278-megawatt plant near Maysville in Mason County and to build a similar generating facility near Trapp in Clark County. The PSC also allowed EKPC to build two of the five 90-megawatt gas-fired turbine generators planned at its Clark County plant. EKPC voluntarily dropped plans for the other three.

In allowing EKPC to continue expanding its generating capacity, the PSC said it was balancing the cost of constructing the plants and possibly creating excess capacity against the costs of cancelling or delaying projects already underway and the potential costs to EKPC and its customers should the utility have to purchase power from outside suppliers.

“The circumstances in which EKPC found itself presented the commission with some difficult choices,” PSC Chairman Mark David Goss said. “But it appears that a potential excess of generating capacity holds fewer risks for EKPC and its customers than a possible deficit.”

In its review, the PSC examined the need for each facility individually.

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The first of the facilities to receive a PSC certificate, in September 2005, was the 278-megawatt Spurlock 4 plant in Mason County. Scheduled for completion in April 2009, it was intended to help meet the additional electric demand created when Warren RECC joined the EKPC system in April 2008.

Construction on Spurlock 4 began in June 2006 and EKPC had spent more than \$210 million on the plant by November 2006. Warren RECC cancelled its contract with EKPC in December 2006, opting instead to remain in the Tennessee Valley Authority (TVA) system.

In today's order, the PSC said that the power from Spurlock 4 will be needed in order to meet growing demand from the other 16 distribution cooperatives that both own and purchase power from EKPC.

The PSC granted a certificate for the 278-megawatt coal-burning plant in Clark County in November 2006. Known as Smith 1, the plant was designed to serve additional customers throughout EKPC's service territory.

To date, EKPC has invested nearly \$50 million in Smith 1. Construction is scheduled to begin later this year, with completion in June 2011, nearly a year later than originally scheduled.

That delay reduces the likelihood that EKPC will find itself with excess generating capacity, the PSC said in today's order. Ordering a further delay to Smith 1 would cost EKPC both in contract penalties and in the likely escalation of the cost of the plant, the PSC said.

"In the long run, EKPC's ratepayers and the public interest at large will be best served by allowing EKPC to complete construction" of Smith 1, the PSC said in the order. But EKPC also should make plans for selling excess power if the need arises, the commission added.

Unlike the coal-burning plants, which are used to meet steady demand for power, EKPC's gas turbine generators are used mostly to supply electricity during short periods of peak demand. After Warren RECC decided to remain with TVA, EKPC voluntarily decided to build only two of the five units which the PSC had authorized in November 2006. Citing reasons similar to those in the decision regarding Smith 1, the PSC said the remaining two gas turbine units may proceed. EKPC said it would not reapply for the others until 2011 at the earliest.

Today's order and other documents in the case are available on the PSC Web site, [psc.ky.gov](http://psc.ky.gov). The case number is 2006-00564.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the commonwealth of Kentucky and has approximately 110 employees.